

*Economic Policy Reform and Competitiveness Project*

QUARTERLY PERFORMANCE REPORT  
(April – June 2004)

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Submitted by: EPRC Project/Chemonics International Inc., Tavan Bogd Plaza, Second Floor,  
Eronhii Said Amar Street, Ulaanbaatar, Mongolia  
Telephone and fax: (976) 11 32 1375 Fax: (976) 11 32 7825  
Contact: Fernando Bertoli, Chief of Party  
E-mail address: [fbertoli@eprc-chemonics.biz](mailto:fbertoli@eprc-chemonics.biz)

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## ABBREVIATIONS AND ACRONYMS

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ADB	Asian Development Bank
AWP-04	Annual Work Plan for 2004
COP	Chief of Party
DCOP	Deputy Chief of Party
EPRC	Economic Policy Reform and Competitiveness Project
EPSP	Economic Policy Support Project
ERA	Energy Regulatory Authority
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GoM	Government of Mongolia
IMF	International Monetary Fund
IR	Intermediate Result
IT	Information Technology
LAN	Local Area Network
LOE	Level of Effort
LOP	Life of Project
MoFE	Ministry of Finance and Economy
MOI	Ministry of Infrastructure
MOU	Memorandum of Understanding
M&E	Monitoring and Evaluation
P/Ds	Person/Days
SO	Strategic Objective
SOW	Scope of Work
STTA	Short-Term Technical Assistance
TA	Technical Assistance
TAF	The Asia Foundation
TCI	The Competitiveness Initiative
TORs	Terms of Reference
TSG	The Services Group, Inc.
UNDP	United Nations Development Programme
WB	World Bank
WTO	World Trade Organization

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## EXECUTIVE SUMMARY: EPRC PROJECT QUARTERLY PERFORMANCE REPORT (APRIL – JUNE 2004)

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This Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) activity covers the period from 1 April through 30 June 2004.

The EPRC contract is a core activity of USAID/Mongolia to support the Mission's Strategic Objective 1, *Accelerate and broaden sustainable, private sector-led economic growth* and its Intermediate Results: Improved enabling environment for private sector growth (IR 1.1) and more competitive industries and sectors (IR 1.2). EPRC will contribute to two broad, interrelated project goals:

1. Accelerate and deepen the policy reform process in Mongolia
2. Promote increased competitiveness in the Mongolian economy.

The relationship between the Mission's strategic framework and the EPRC activity is summarized in the diagram below:

Expected project results include the following:

1. Priority policy issues identified and resolved
2. Improved national dialogue
3. Priority clusters strengthened.

To achieve these results and meet the contract requirements specified by the categories of Contractor's tasks summarized in the adjacent text box, the IP organizes activities in four broad areas:

- A. Economic, trade, and financial policy support
- B. Energy sector reform support
- C. Business and sector/cluster development
- D. Cross-cutting activities: National dialogue and project management

Policy analysis, formulation, and implementation support activities to achieve Project Result 1, *Priority policy issues identified and resolved*, are subsumed under component A of the project. Energy sector reform activities are included under project component B and are also responsive to the achievement of Project Result 1.

Project component C, Business and sector/cluster development, include activities proposed to achieve Project Result 3, *Priority clusters strengthened*.

Project component D responds to the achievement of Project Result 2, *Improved national dialogue*, as well as cross-cutting activities of coordination with other USAID and donors' programs, management of the internship program, and project monitoring and reporting tasks.

Section I of the QPR summarizes significant accomplishments of the quarter:

- Completion of cost accounting workshops for tariff regulation in the energy sector
- Memorandum of Understanding signed to establish a Tourist Information Center
- Country risk and estimates of country risk premium for Mongolia
- Completion of design of funds to improve sector/cluster and firms' competitiveness: the *Competitiveness Fund* and the *Business Development Fund*

Section I also provides a summary of other activities implemented during the quarter.

Section II of this report presents results of work plan implementation for the quarter.

Section III describes project management and administration activities, current personnel, deployment of short-term expatriate technical assistance, problems encountered and remedial actions, and project and contract management actions for the next quarter.

Annexes A, B, and C contain, respectively, an updated project description sheet, current long-term project staff and details of short-term expatriate technical assignments, and a budget status report.

## SECTION I: SIGNIFICANT ACCOMPLISHMENTS

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### A. Introduction

Pursuant to contract provision F2. (c), this Quarterly Performance Report (QPR) for the *Economic Policy Reform and Competitiveness Project* (EPRC) covers the period from 1 April through 30 June 2004.

Section I of the report summarizes significant project accomplishments, Section II presents details of work plan implementation, and Section III deals with project management and implementation. Annexes A, B, and C contain, respectively, an updated project description sheet, current long-term project staff and expatriate short-term assignments, and a budget status report.

### B. Significant accomplishments

Contractor's efforts during the quarter under review focused on implementation of the Annual Work Plan for 2004 (AWP-04). Project management focused on restructuring the life-of-project budget to incorporate energy sector as a distinct CLIN, on the design of agile mechanisms to implement the matching grant component of the project, and preparation of a draft proposed contract amendment to reflect these changes. A close and supportive association with the Mission facilitated the successful accomplishment of projected tasks as planned and no major problems were encountered.

Significant accomplishments of the quarter included the following:

- Completion of cost accounting workshops for tariff regulation in the energy sector
- Memorandum of Understanding signed to establish a Tourist Information Center
- Country risk and estimates of country risk premium for Mongolia
- Completion of design of funds to improve sector/cluster and firms' competitiveness: the *Competitiveness Fund* and the *Business Development Fund*

The remainder of this section provides a summary of these accomplishments, including other activities implemented during the quarter.

#### **B1. Completion of cost accounting workshops for tariff regulation in the energy sector**

As scheduled, the project completed eleven workshops on regulatory cost accounting for energy sector companies during April and May on behalf of the Energy Regulatory Authority (ERA), delivering the equivalent of 164 person/days of training.

The workshops introduced the companies to new techniques in collecting and reporting their production and service costs according to International Accounting Standards (IAS). Sector companies will start using the new methods to report their costs to the ERA for tariff making purposes.

A uniform system of accounts, including function specific accounts and associated instructions was developed with the assistance of international accounting expert, Mr Larry Jensen and the Mongolian accounting firm, Ulaanbaatar Audit LLC. The information was then converted into handout and workshop material by the staff of UB Audit under the leadership of Mr Osorgarav, General Director, and presented in two-day workshops for ERA staff, on 16 April, the Central Energy District's generating companies on 19 and 20 April and electric distribution companies on 21 and 22 April which were also attended by ERA's tariff department.



**Participants at the regulatory cost accounting workshop of 16-23 April 2004.**

Six stand-alone training modules were developed for the workshops. A general module provides an overview of the purpose of the new cost accounting requirements and is being offered to all workshop attendees. Specialized modules have also been developed for electric and heat generators, transmission companies, electric transmission and supply companies, heat distribution and supply companies and the National Dispatch Center.

In May, the EPRC Energy Sector advisory staff and the Mongolian auditing firm, Ulaanbaatar Audit LLC, completed the last five of a total of eleven workshops to improve cost accounting practices of energy sector entities. Workshops for the Western Energy System were conducted in Ulaangom during the first week of May and in Choibalsan for the Eastern Energy System during the third week. Workshop participants have included energy sector company managers, accounting staff and several engineers who will now implement the new cost accounting system in their respective companies. Attendees were provided with a workbook that contains their service-specific chart of accounts, explanatory materials, the presentations and a number of workshop exercises.



**UB Audit LLC staff, EPRC Energy Advisor, and participants in the accounting workshops for the Western Energy System held in Ulaangom during the first week of May 2004.**

Current plans are for the Energy Regulatory Authority (ERA) to receive uniform cost-based accounting reports beginning in 2005 and have the system fully implemented by the

middle of 2005. ERA will use these reports for tariff calculation purposes and company performance evaluations.

A cost-based, standard accounting system is a requirement for:

- Market-responsive, commercially-oriented operations of energy sector entities
- Transparent and accountable tariff setting by an independent regulatory authority
- Attraction of domestic and foreign private investment to help finance the capital investments needed to improve service quality, coverage, and delivery in the sector
- Structuring and implementation of transparent subsidies and tariffs where required to provide energy delivery to disadvantaged populations.



Completion of the workshops marks an important stage in moving Mongolia's energy sector towards meeting these objectives. The project will next assist the ERA in releasing the six accounting training modules in a CD for distribution to the sector companies and in developing the agency's auditing and supervisory capabilities.

During the next quarter EPRC will be producing a special CD containing all background and training materials, instructions, exercises and forms for the actual tariff request to the ERA and/or Aimag Regulatory Boards. The CD will be distributed to all companies involved and will be made available to interested parties.



Participants in the accounting workshop held for the Eastern Energy System in Choibalsan during the third week of May 2004.

## **B2. Memorandum of Understanding signed to establish a *Tourist Information Center***

After three months of negotiations, a private-public partnership to collaborate on the establishment and operation of a long-awaited Mongolian Tourist Information

Center finally came into being with the signing of a Memorandum of Understanding on 21 May 2003.

At a brief ceremony held at the USAID Resource Center, the four partners, the Mongolian Tourism Association, the Mongolian Tourism Board on behalf of the Ministry of Infrastructure, the Tourism Department of Ulaanbaatar Municipality, and the Arts Council of Mongolia agreed to share information and resources to make the venture possible. They have given themselves two months to reach agreement about such matters as the location of premises, financing, and management of the Center.



Mr Ts Bayarsaikhan, Chairman, Mongolian Tourism Association, signing the Memorandum of Understanding for the Tourist Information Center on 21 May 2004.

The Tourist Information Center (TIC) will not only direct visitors to places of interest in Mongolia, but will provide a range of services designed to make visitors feel welcome, tell their friends when they return to their home country, and hopefully come back again in future years.

The overall aim is to attract more visitors who will spend more foreign currency while they are here. The list of services will include sight-seeing tours, theater and restaurant reservations, and currency exchange. The center will also have an educational role, explaining the history and culture of Mongolia to foreign guests through books, videos, and lectures.



Seated, left to right at the signing ceremony of the Tourist Information Center MOU at the USAID Resource Center on 21 May 2004: Mr Ts. Bayarsaikhan, Chairman, Mongolian Tourism Association, Mr M. Enkhbayar, General Director, Mongolian Tourism Board, Mr J. Sereeter, General Director, Tourism Sector, Road, Transport and Coordination Department, Ministry of Infrastructure, Mr E. Munkh-Ochir, Chief, Tourist Department, Ulaanbaatar Municipality, Mr G. Mend-Ooyo, Board of Directors, Arts Council of Mongolia, and Mr Bruce Harris, Senior Business Advisor, EPRC; standing: Ms B. Indraa.

After initial discussions held in late January with the parties, the project provided assistance with the development of the vision, mission, and objectives of the center. During March 2004, EPRC provided the services on an international expert on tourism development, Mr. John Heather, to advise the group and help prepare a business plan for the center.

### B3. Country risk and estimation of country risk premium for Mongolia

Competitive participation of Mongolia in the world economy depends, *inter alia*, on enabling conditions for private sector growth and investment. In the environment of global competition for investment, the concept of country risk is important for developing and implementing effective strategies for attracting and retaining foreign direct investment.

Country risk analysis provides a view of the environment through the eyes of potential investors. It examines key risk factors that foreign investors consider when making an investment decision, forming part of their country “due diligence” before committing to an investment.

As part of this country “due diligence” process, the project completed during the quarter a benchmarking of Mongolia’s country risk relative to similar countries and developed estimates of country risk premium. This benchmarking and initial estimation should lead to:

- A better understanding of the elements of country risk that investors consider
- Identification of the country’s relative strengths and weaknesses in attracting and retaining foreign direct investment (FDI)
- Strengthening and coordination of country risk management in the country
- Policies focused on improving Mongolia’s economic and financial risk ratings to reduce country risk premiums
- Development, enactment, and maintenance of policies supportive of a conducive investment climate
- Increased FDI flows and negotiation of better terms for the privatization of state-owned assets and concessions for financing infrastructure projects.

**Mongolia's country risk rankings.** The benchmarking used a country risk rating system produced by the Political Risk Services (PRS) Group's International Country Risk Guide (ICRG) that provides forecasts and analysis of political, financial, and economic risk for more than 130 countries. The ICRG system is based on a set of twenty-two components grouped into three major categories of risk: political, financial, and economic, as follows:

#### Political Risk components

- Government stability
- Investment profile
- External conflict
- Military in politics
- Law and order
- Democratic accountability
- Socioeconomic conditions
- Internal conflict
- Corruption
- Religious tensions
- Ethnic tensions
- Bureaucracy quality

#### Financial Risk components

- Foreign debt as a percentage of GDP
- Current account as a percentage of exports of goods and services
- Exchange rate stability
- Foreign debt service as a percentage of exports of goods and service
- Net liquidity as months of import cover

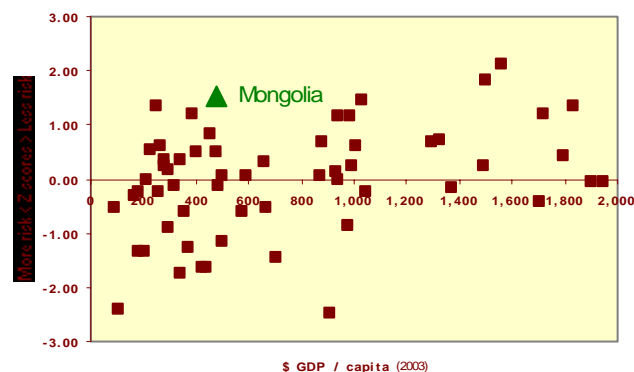
#### Economic Risk components

- GDP per head of population
- Annual inflation budget
- Current account balance as a percentage of GDP
- Real annual GDP growth
- Budget balance as a percentage of GDP

The Political Risk Services (PRS) Group's International Country Risk Guide (ICRG) methodology produces a separate rating index for each of the risk categories. The Political Risk rating index is based on 100 points, Financial Risk on 50 points, and Economic Risk on 50 points. The total points from the three indices are divided by two to produce the weights for inclusion in the composite score, the composite country risk rating, where political risk rating contributes 50% of the composite rating, while the financial and economic ratings each contribute 25%.<sup>1</sup>:

To benchmark Mongolia's country risk, the ICRG scores available for September 2003 were converted into normal or z scores to be able to compare the distribution of Political, Financial, Economic and Composite Ratings scores on a standardized basis across the categories among three groups of countries. The first group included 106 developing and transition countries as grouped by the IMF/World Economic Outlook (WEO) Database, the second group included 59 developing and transition

**Exhibit I-1: Mongolia's political risk relative to developing & transition countries with GDP per capita of \$ 2,000 and less (September 2003)**



<sup>1</sup> Source: The ICRG Rating System, The PRS Group.

countries with GDP per capita of \$2,000 and less, and the third group included 24 transition countries, regardless of GDP per capita. Data for GDP per capita were obtained from the IMF/WEO Database.

Exhibits I-1 through I-4 show Mongolia's country risk rankings as of September 2003 within the second group of 59 developing and transition countries with per capita GDP of \$2,000 or less. Scores above the mean indicate less than average risk—a score of 0 indicates average risk and negative scores indicate higher than average risk.

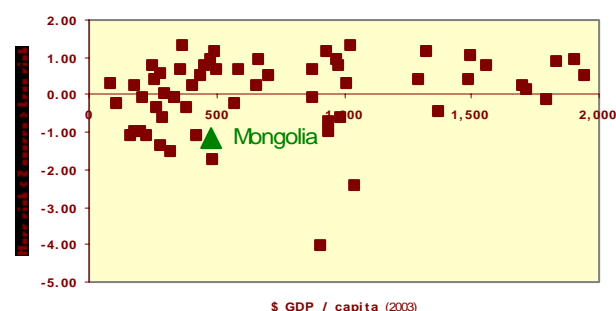
Among the 59 developing and transition countries with GDP per capita of \$2,000 and below, Mongolia performs very well. It is third in lowest political risk, surpassed only by Namibia and Morocco, as shown in Exhibit I-1.

Exhibits I-2 and I-3 concerning economic and financial risk, respectively, portray a different story. Mongolia has a higher than average risk rating in both. It has the sixth highest economic risk rank, after Zimbabwe—the country with the highest economic risk—the Congo Republic, Nicaragua, Zambia, and Mali. Mongolia also has a higher than average financial risk; 18 countries out of 59 used for benchmarking purposes have higher financial risk ratings.

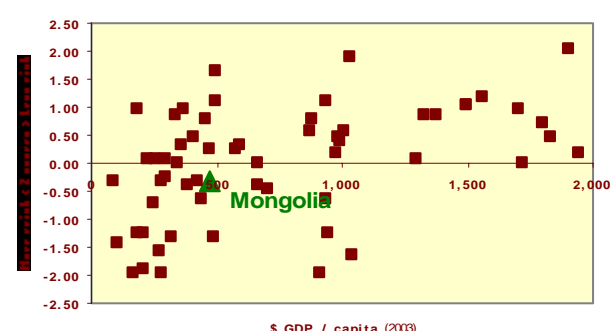
Exhibit I-4 presents Mongolia's composite country risk rating—political, economic, and financial—within the group of 59 countries used for this analysis. Mongolia performs slightly better than average, ranking in the 22nd place—indicating that twenty-one countries have a lower composite country risk within this group.

This slightly above average performance is a function of the methodology that the Political Risk Services (PRS) Group's International Country Risk Guide uses, assigning a weight of .50 to political risk and .25 each for economic and financial risk. If equal weights had been assigned to each of the country risk factors, Mongolia's composite country risk rank would have been lower than average, indicating higher country risk.

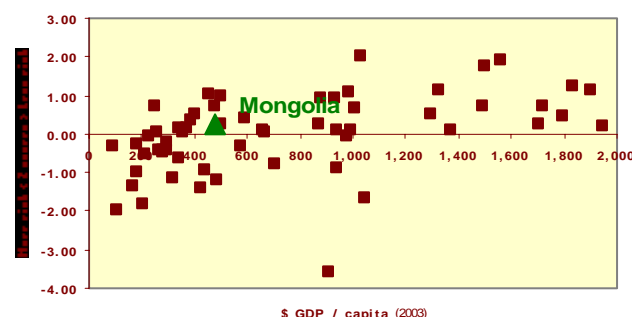
**Exhibit I-2: Mongolia's economic risk relative to developing & transition countries with GDP per capita of \$2,000 and less (September 2003)**



**Exhibit I-3: Mongolia's financial risk relative to developing & transition countries with GDP per capita of \$2,000 and less (September 2003)**



**Exhibit I-4: Mongolia's composite risk relative to developing & transition countries with GDP per capita of \$2,000 and less (September 2003)**



These results seem to indicate that while Mongolia has achieved remarkable progress in achieving a peaceful political transition to a democratic society in the last decade, its economic and financial foundations are weak. Financial and economic risks remain relative high, resulting in foreign investors' demanding a higher country risk premium on their potential investments.

With the most difficult political tasks of transition now largely completed, Mongolia needs to build on the foundations for sustainable, broad-based, equitable, private-sector-led economic growth to solidify the social and political achievements of the past and avoid setbacks and reversals. The key economic policy challenge of this decade for Mongolia will be how to use its yet unexplored and unexploited natural resources wisely to diversify its economy and improve country competitiveness. Managing this challenge properly will require careful balancing of attraction of private foreign direct investment (FDI), increasing exports, and sound fiscal and monetary policies.

Current country risk ratings in economic and financial performance of Mongolia reflect investors' concerns in these areas. Government policies need to be responsive to these concerns and set the reduction of country risk and country premium as the acid tests of overall country performance by:

- Implementing and sustaining sound macroeconomic policies to improve country competitiveness
- Promoting and supporting microeconomic policies that reduce aggregate business transaction costs
- Being constantly aware of and monitoring comparative country risk ratings and premiums.

These policies, supported by a sustained commitment to their implementation over time, will reduce country risk and weave an enabling environment more attractive to private domestic and foreign investment. In turn, this will begin to break the cycle of donor dependence, high country indebtedness, and low competitiveness of non-mining sectors in which the Mongolian economy currently operates.

#### *Mongolia's country risk premium.*

Foreign investors often face a difficult choice in assigning country risk premiums for their investments when investing in emerging and developing economies. One way of establishing the country risk premium for a country is to compare the yield on country's government bonds denominated in US dollars to the yield on US Government bonds of an equivalent maturity.

However, assessment of relevant credit spread may not be applicable to a number of emerging and developing countries, like Mongolia, that have not issued traded, "hard" currency, i.e., USD-denominated debt. As an alternative, investors turn to risk ratings of a country to translate rating into tangible measures for country risk premium evaluation and estimation of hurdle rates to make a comparative analysis among a group of potential candidates for foreign direct investment.

The concept of a *country risk premium* refers to an increment in the rate of return that investors require in a particular country compared to their home countries or some standard.



A modified version of the Credit Rating Model developed by Erb, Harvey and Viskanta was used to estimate Mongolia's country risk premium. The model uses credit rating as a measure of systematic, non-diversifiable risk where a country stock index, the dependent variable, is regressed on the country's risk rating, the explanatory variable. This model can be used even in countries without equity markets and hard currency denominated debt.

In the modified version of the model, we specify a regression function where the country risk premium is the "predicted" or dependent variable and the country risk rating is the "predictor" or explanatory variable, as follows:

$Y = \alpha + \beta * X$ , where  
Y is the country risk premium,  
X is the country risk rating, and  
 $\alpha$  and  $\beta$  are coefficients.

The regression produced the following relationship between the country risk premium and the country risk rating.

$$Y = 0.339205 + (-0.00403) * X$$

As Mongolia does not have an established country risk premium, based on its country risk score we can use the equation to estimate what the premium would be. A simple calculation yields the value of 8.28%, or 828 basis points, as the country risk premium that Mongolia would have to pay if it issued USD-denominated debt in the international markets. The estimate should be used with caution as it is subject to statistical error, changing conditions in world capital markets—the country risk composite scores data are from September 2003—and changing conditions in Mongolia. Nevertheless, the estimated range of some additional 800 basis points (8%) that Mongolia would have to pay over similar U.S. issued debt instruments is indicative of its potential country risk premium.

As countries compete for private investors' interest and investments, countries need to keep tabs of and "manage" their country risk premium. Managing the country risk premium means paying close attention to the different social, political, economic, and financial factors that enter into the elaboration of a country's risk assessment. EPRC's technical report, "Country risk and country risk premium estimation for Mongolia" to be released early next quarter provides a detailed analysis of these risk factors and policy implications for their mitigation.

#### **B4. Completion of design of funds to improve sector/cluster and firms' competitiveness: the *Competitiveness Fund* and the *Business Development Fund***

Project completed the design and negotiation of preliminary agreements with the Mission to convert the Matching Grants Program (MGP) into two funds focused on improving the competitiveness of selected clusters and firms in Mongolia: *the Competitiveness Fund* and *the Business Development Fund*. Both funds will draw from the \$500,000 budget originally assigned for the MGP.

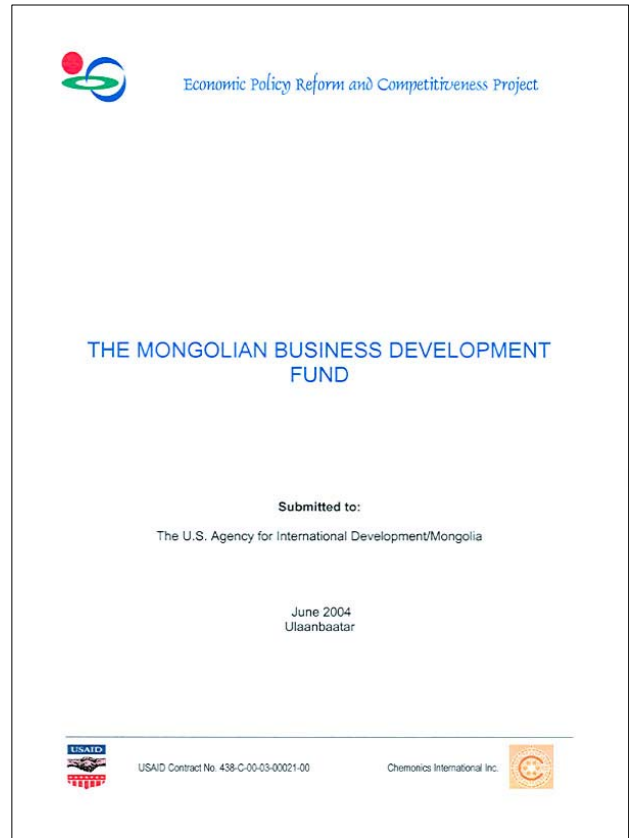
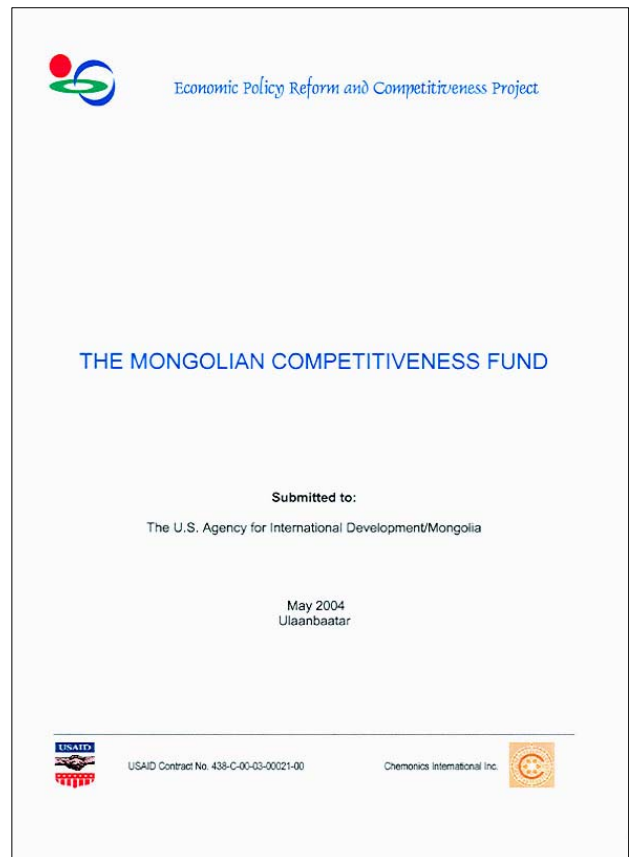
Pending Contracting Officer's approval, these products are scheduled for release during the next quarter. Details of the funds are provided below.

*The Mongolian Competitiveness Fund.* The purpose of The Mongolian Competitiveness Fund (TMCF) is to contribute to the increase of foreign revenues for the Mongolian business sectors with a presence or the potential to compete in the world markets. Objectives of the Fund are to support private and private-public partnerships that seek to:

1. Provide common access to resources, services, facilities, technologies, and information that demonstrably improve sectoral efficiencies in costs, market share, and foreign sales revenues by meeting international requirements for product, process, and service quality
2. Promote Mongolia's brand image abroad, market the country as a destination, and develop awareness of Mongolian-branded products that demonstrably lead to increased foreign sales revenues
3. Provide common access to resources, services, facilities, and information that demonstrably reduce business transaction costs or improve the business climate in the sector, cluster, or country
4. Remove barriers and facilitate sector access to international markets.

*The Mongolian Business Development Fund.* The purpose of *The Mongolian Business Development Fund* (BDF) is to provide support to commercially viable transactions involving Mongolian business firms with a presence or the potential to compete in the world markets. Objectives of the Fund are to assist a business firm in:

1. Identifying target markets, distribution channels, buyers, distributors, and agents
2. Supply feasibility analysis and product development for the identified target markets
3. Re-engineering of product lines according to target market requirements
4. Transactions, contract negotiations, and financial structuring.



## **B5. Other activities implemented in the quarter**

### **B5.1 Other activities in economic and trade policy support**

*Completion of the first draft Mongolia, Vision 2020 “technical background paper” on foreign trade.* The technical paper shows that Mongolia’s respectable achievements in governance, institutional development and economic growth have not yet been followed by equally impressive improvements in industrial structure and modernization of the economy. During the last decade no major changes in volume and composition of exports have been spotted. Adjusted for dollar inflation, exports in 2001-03 were lower than those in 1995-97. The share of mining and agricultural products in total exports is 3%. Trade deficit is growing (\$136.8 million in January-May 2004). Strong tugrik, high interest rates, high tax rates, high labor cost (as compared with labor productivity), high transportation costs and significant trade barriers are among factors responsible for the low competitiveness, its pervasiveness and its sturdiness. To improve this situation major changes will be needed: business friendly monetary and fiscal policies, policies promoting non-mining foreign direct investment (in agriculture, industry, financial sector and services), public-private partnerships in infrastructure investment, negotiation of lower barriers for Mongolian products with trading partners, increased focus on health and education, stricter environmental protection, among others. A second technical background paper in support of the national development strategy will be released next month.

*Shadow economy survey.* Project worked closely during the quarter with the Mongolian Foundation for Open Society (MFOS) and the National Statistical Office (NSO) on the design of the household-based national income survey and informal economy to review coverage of national accounts aggregates in need of better estimation; NSO is currently tabulating the pretest results of the questionnaire applied to 500 households and the working group expects to review these in July.

Draft sent for comments to Mike Layne, US Embassy/Mongolia, and Mrs Zhen Cross, U.S. Department of Commerce. These products currently carry a 10 percent duty. The petition, if granted, would allow duty free entry—now available only for Least Developed Beneficiary Countries, not Developing countries such as Mongolia. A full analysis of the Harmonized Tariff System of the United States concluded that only bovine products are relevant. Mongolia's major exports to the US (apparel and other fibers) are statutorily barred from the GSP, as are the leather goods to which we could add value in Mongolia. Minerals and other precious metals are already duty-free. Therefore, there was very little left to include in petitions for inclusion under the GSP of the U.S. but the opportunity could not be passed up.

### **B5.2 Other activities in sector/cluster and firm competitiveness**

*Activities in natural fibers sector*

*European Distribution Network.* Business plan prepared and distributed to potential partners with positive response. Berlin Center scheduled to open November 2004. Sales estimates for 2005-2007 are projected at €3.6 million.

*Preparation for the Cashmere Forum.* Scheduled to be held on 6 July 2004 in partnership with GTZ with the objective of setting up a private-sector-led, National Cashmere Working Group to shape national policy.



*Distribution of 'Fibermark Society' point of sale materials.* Banners and brochures distributed to all Mongolian cashmere outlets.

*Activities in leather sector*

*New Mongolian Leather Association (Eco-Aris) legally constituted.* Objectives: To cooperate in areas such as raw material procurement, machinery sharing, purchase of common-use equipment, technology transfer, sales and branding. The group is currently negotiating to supply Italian footwear producer (Pancaldi US\$ 1 million).

*Feasibility study for local equity fund*

Project has held working sessions with the Mongolian Foundation for Open Society (MFOS) on co-sponsoring a feasibility study for the potential establishment and operations of a local private equity and quasi-equity fund and expects to develop TORs for a feasibility analysis focused on potential transaction pipeline (deal flow), assessing individual and institutional investors' interest in capitalizing the fund, and potential risk mitigation management and structures. Pending approval from their relevant officers, MFOS and EPRC have an agreement in principle to share the costs of the fund feasibility study. Activity is scheduled for the next quarter.

### **B5.3 Other activities in energy sector policy support**

*Finalization of 2004 work plan with ERA.* Priority activities to be carried out in the second half of 2004 include:

- Developing new power market structure and associated Power Market Rule with market clearing mechanism, which will introduce elements of competition in the power sector
- Drafting the ERA Regulatory Contract to be signed with privatized energy sector companies
- Reviewing final draft generation, transmission, distribution, supply and construction licenses developed by the ERA
- Implementing block tariff design with a lifeline block
- Supporting the ERA in developing and implementing the USOA for energy sector
- Developing and implementing the consumer protection program, public hearing procedure, public education program and dispute handling procedures.

*Completion of draft Training Manual on "Regulatory Cost Accounting and Tariff Methodology".* Draft and charts of accounts will be reviewed to incorporate users' feedback received in the nine training workshops conducted and will be released in CD format during the next quarter.

*Energy Sector Roundtable conducted.* JICA hosted the meeting this month and presented the results of the "Electric Power Consumers' Survey in Ulaanbaatar" conducted by JICA in collaboration with the Center for Social Development.



Mr Horst Meinecke, during the public presentation held at the USAID Resource Center on 8 April 2004.

*How investors select a country: The investor's point of view.* Two public presentations held at the USAID Resource Center in April, continuing the series of informal discussions and presentations on economic and business issues sponsored by the project. The presentation focused on how an investor selects a country for a potential investment, what factors are being considered during country due-diligence, how real risks, and perceived risks are being translated into the investor's minimum required rate of return (the hurdle rate), and how the hurdle rate translates into what an investor can

actually afford to pay for a privatization target.

The presentation placed emphasis on the following points:

- Competition for investment is global—a country has to court it
- Sellers/governments need to understand what investors look for in an investment and a country
- Investors have options, thus they are impatient; if a country is not appealing, they move on
- The perception that if a country offers an asset for sale investors will come flocking in is not true any more
- Since Enron, equity investors and international lenders' appetite for risk has decreased significantly
- Investor perceptions are at least as important and much more damaging to a country than real risk
- A government should do anything it possibly can do to decrease real and perceived obstacles to investment. This will increase purchase prices and, in the energy sector contain tariffs
- Reducing country risk is actually cheap but the political will to do it needs to be there
- Investors are smarter than you think and have much more experience than most governments
- Countries should realize that the investor is in the driver's seat; there are many other countries to choose from
- Privatizations which do not bring real change come to haunt countries later.

The presentation included several examples of transactions and risk calculations.

#### **B5.4 Other activities in public education and national dialogue support**

*Conclusion of negotiations for subcontract with The Asia Foundation (TAF).* TAF will focus on supporting the Open Government Web site and national dialogue activities.

*Updating and Web site posting of current Mongolian business laws.* EPRC began work with the National Legal Center on a project to update business-relevant laws in Mongolian (inclusive of all current amendments) and make these available in English to prospective foreign investors. Four working sessions have been held, laws identified and the first completed and updated law

on general taxation (inclusive of all 29 amendments) in Mongolian and in English is currently being reviewed and expected to be released in July. Four additional laws are scheduled for update, review, and release in English versions in late July: the foreign investment law, labor law, company law, and immovable property tax law. Current plans include a joint NLC-EPRC presentation at the NAMBC Annual Investor Conference in September with an expected release of some 10-15 current English versions of business-relevant laws at that time. Current business laws in English and Mongolian will be posted in the National Legal Center Web site with the Open Government site providing links to the NLC Web site.

*MCC Team Briefing.* Project prepared a briefing paper for the Millennium Challenge Corporation (MCC) team visit to Mongolia—"The Millennium Challenge account in the context of Mongolia's political economy", 24 May 2004—presented and discussed the paper at the Saturday, 29 May 2004 meeting with the team



## SECTION II: WORK PLAN IMPLEMENTATION

### A. Introduction

This section documents project implementation status of the current work plan—AWP-04—as of the end of the quarter. Part B of the section presents the framework of AWP-04 for the four project components: Economic, Trade, and Financial Policy Support, Energy Sector Reform Support, Business and Cluster Development, and Cross-Cutting Project Activities and Management. The framework contains objectives, projected annual results, and projected life-of-project (LOP) results for each component; the first column contains the objectives defined in the strategy, the second column contains the expected results at the end of the first annual work plan and the third column details the status at the end of the project.

Part C of the section contains detailed implementation status by project component.

### B. Work plan framework

The work plan framework for Economic, trade, and financial policy support is as follows:

A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT		
Policy Support Objectives	Projected annual results	LOP Results
<b>A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth</b>	Fiscal and macroeconomic impact analysis of foreign debt service projections and policy options developed and presented.	A stable and predictable macroeconomic environment, market-oriented, and promoting sustainable and equitable economic growth.
	Fiscal and macroeconomic impact scenarios of corporate tax reduction developed; policy options formulated and presented.	
<b>A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy</b>	Generic tariff and non-tariff barriers to Mongolia's trade expansion in Russian and Chinese markets assessed for bilateral and multilateral negotiations.	Generalized reduction of tariff and non-tariff barriers to trade with trading partners.
	Improved information access available for entrepreneurs on foreign target markets' entry requirements and GSP applicable to Mongolian products.	
	Impact scenarios of the <i>Agreement on Textiles and Clothing</i> (ATC) and <i>Multi Fibre Agreement</i> (MFA) on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.	
<b>A3. Reduction of transaction costs for businesses</b>	Assessment of Bank of Mongolia requirements, banking spreads, and formulation of policy instruments and plan of action to induce a reduction of commercial loan interest rates, consistent with a stable, market-oriented macroeconomic environment.	Reduction of cost of loan capital to businesses.
	Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings.	Reduction of shipping transit times and costs for Mongolian exports.
<b>A4. Deepening and strengthening of the financial sector</b>	Policy framework and strategy developed to deepen the primary and secondary mortgage markets.	Expanded primary and secondary mortgage markets provide competitive loan products for residential and commercial financing.
	Assessment and plan of action prepared for stock market operations and development of equity products.	Diversity of equity financial products available.
	Implementation of insurance regulatory framework and strengthened sector supervision.	Strengthened regulatory and capacity to supervise a wider range of insurance products.
<b>A5. Response to emerging policy reform initiatives</b>	As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.	As defined and agreed upon for each initiative.

For the Energy sector reform support component of the project, the proposed work plan framework is shown below:

<i>B. ENERGY SECTOR REFORM SUPPORT</i>		
Policy Support Objectives	Projected annual results	LOP Results
<b>B1. Development and implementation of a transparent, market-oriented regulatory environment to promote competitive and efficient delivery of energy services to consumers</b>	<p>ERA issues regulations and supervises implementation and use of cost-based standards for use by power generating companies .</p> <p>ERA issues and supervises implementation and use of IAS-compliant chart of accounts by power generating companies</p> <p>ERA has strengthened supervisory capacity to oversee power generating companies' implementation of cost-based tariffs and IAS-compliant chart of accounts</p>	The ERA has increased supervisory capacity to regulate a competitive, market-oriented, and transparent regulatory environment in the energy sector.
<b>B2. Development, maintenance, and implementation of commercial orientation and practices in energy generation and distribution companies in the sector</b>	<p>All energy companies are implementing cost-based tariff methodologies and IAS-compliant standard chart of accounts.</p> <p>Some distributions companies are implementing improved customer service practices (complaints management, billing and collection systems).</p>	Energy generation and distribution companies in the sector operate on a commercial basis.
<b>B3. Development, maintenance, and implementation of a legal, regulatory, and financial environment attractive to foreign and domestic private investment and management in the sector</b>	Measures identified and plan of action implemented through "country due diligence" assessment to make Mongolia's energy sector attractive to private foreign investment.	Foreign and domestic private investment transactions negotiated/concluded in the energy sector.
<b>B4. Response to emerging energy sector initiatives</b>	As negotiated and agreed upon and consistent with project energy sector focus on the regulatory environment, commercialization and attraction of private investment and management.	As defined and agreed upon for each initiative.

The corresponding framework for the Business and sector/cluster development component appears as follows:

<i>C. BUSINESS AND SECTOR/CLUSTER DEVELOPMENT</i>		
Objectives	Projected annual results	LOP Results
<b>C1. Improved competitiveness of identified sectors/clusters</b>	Foreign target market niches for Mongolian products or services identified in the key sectors of tourism, cashmere, other textiles, meat and meat products, skins, hide, and leather.	Significantly improved access to and penetration of foreign markets through the introduction of best business practice, co-marketing initiatives, and technology/quality up gradation, <i>across the sector</i> .
<b>C2. Improved competitiveness of sector/cluster based firms</b>	Potential 'anchor firms' identified, recruited as clients, and receiving assistance from the Matching Grant Program (MGP). Dialogue initiated between anchor firms and foreign buyers.	Client firms increase sales and market share in export and export oriented markets, <i>i.e.</i> , become more competitive.
<b>C3. Improved competitiveness of <i>high potential</i> client firms regardless of sector</b>	High potential firms identified, recruited, and receiving assistance from the BD program	Improved core business practices (marketing, production, financial and asset management) leads to increased sales, profitability, employment and investment) - the performance indicators.
<b>C4. Response to emerging opportunities to structure and facilitate public or private/public transactions</b>	As negotiated and agreed upon among the parties and consistent with project BD focus on improving competitiveness of firms, sectors/clusters, and country.	Value of transactions structured or brokered.

Cross-cutting activities such as national dialogue and project management constitute the fourth component of the project, as detailed below:

## D. CROSS-CUTTING ACTIVITIES: NATIONAL DIALOGUE AND PROJECT MANAGEMENT

Objectives	Projected annual results	LOP Results
<b>D1. Improved public transparency, corporate governance and national dialogue</b>	<p>Not-for-profit organization, the "Mongolian Business Trust" (MBT) registered, operating as a party to BD transactions, providing value-added services to foreign investors and local businesses through the dissemination of information for businesses and con</p> <p>Continued support for the <i>Open Government</i> Web site operated through the MBT.</p> <p><i>The Mongolian Business Trust Quarterly Review</i> is available through a Web site and distributed electronically to subscribers, in English and Mongolian.</p> <p>Public speaking engagements and audience-targeted informal presentation and discussion opportunities by visiting experts, short-term consultants, and project staff are utilized.</p>	<p>A private-sector led, at least partially self-sustaining not-for-profit organization articulates business interests, develops positions on issues, promotes exports and foreign investment in the country, and provides value-added services to its members.</p> <p>Increased national dialogue on economic policy issues and government transparency.</p> <p>Business community, partners and general public are more informed on economic issues, policy options and the functioning of open market economies.</p> <p>World-class technical expertise shared with the general public, partners, and business community.</p>
<b>D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations</b>	Regular meetings and discussions lead to identified opportunities to structure collaboration in mutually beneficial ventures.	Increased value-added of project technical assistance delivered through proper project positioning, collaboration, and leveraging of resources.
<b>D3. Monthly EPRC Review</b>	Coverage of project activities of general interest, issued monthly and distributed electronically in English and Mongolian.	Partners are well informed on project activities.
<b>D4. Contract management</b>	Quarterly Progress and Financial reports (QPRs), Annual Work Plans (AWPs), project inventory, training reports, and other contract reports submitted to USAID/Mongolia as required.	Project contractual requirements are met.

## C. Work plan implementation

Substantive work was accomplished in all four project components during the quarter under review. Exhibits II-1 through II-4 present AWP-04 implementation details for each.

## C1. Economic, trade, and financial policy support

Major activities of this component during the quarter, as described in Section I included the following:

- Assessment of country risk and estimates of country risk premium for Mongolia
- Completion of the first draft Mongolia, Vision 2020 "technical background paper" on foreign trade
- Work on the shadow economy survey with the Mongolian Foundation for Open Society (MFOS) and the National Statistical Office (NSO) on the design of the household-based national income survey and informal economy to review coverage of national accounts aggregates in need of better estimation

Additional activities not highlighted in Section I, include the following:

- Draft technical paper prepared on Impact scenarios of the Agreement on Textiles and Clothing (ATC) and Multi Fiber Agreement (MFA) on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.
- Assistance provided to the MOIT on TIFA requirements

Exhibit II-1, at the end of this section, provides details on overall status of AWP-04 implementation in the Economic, trade, and financial policy support area.

## **C2. Energy sector reform support**

Highlights of energy sector work during the quarter, as detailed in Section I, included:

- Completion of cost accounting workshops for tariff regulation in the energy sector
- Finalization of 2004 work plan with ERA
- Completion of draft Training Manual on “Regulatory Cost Accounting and Tariff Methodology”.
- Continuation of energy sector roundtable discussions, with JICA hosting the session
- Public presentations on *How investors select a country: The investor’s point of view*
- Assistance to the ERA on review of licenses.

By the end of the quarter, Energy Sector Reform activities were proceeding on schedule while responding flexibly to emerging policy issues that needed to be addressed. Exhibit II-2, at the end of this section, provides details on AWP-04 implementation status for this component.

## **C3. Business and sector/cluster development**

Key activities of the Business and sector/cluster development during the quarter, as described in Section I, included:

- Signing of a Memorandum of Understanding to establish a Tourist Information Center
- Completion of design of funds to improve sector/cluster and firms’ competitiveness: the *Competitiveness Fund* and the *Business Development Fund*
- Preparation of a business plan and negotiation with potential partners to set up a European Distribution Network in Berlin for Mongolian cashmere products
- Preparation for the Cashmere Forum to be held next quarter, in partnership with GTZ
- Formal constitution of a new Mongolian leather association (Eco-Aris)
- Preparation of TORs for a feasibility study of a local equity fund, in partnership with the Mongolian Foundation for Open Society (MFOS)

By the end of the quarter, BDS activities were proceeding as planned although progress was slow in the tourism sector. Although key actors agree with the need for a Tourist Information Center, collaboration is difficult as none wants to relinquish main control of a potential new entity.

Exhibit II-3, at the end of this section, presents details of the AWP-04 implementation of the BDS component.

## **C4. Cross-cutting activities: national dialogue and project management**

Exhibit II-4, at the end of this section, provides details of AWP-04 implementation status in this area. Highlights of the quarter included:

- Work with the National Legal Center to update and disseminate current Mongolian business laws, in English and Mongolian, through Web sites



- Support to the GoM in preparation for potential eligibility under the Millennium Challenge Account Program
- Conclusion of negotiations for subcontract with The Asia Foundation (TAF) to focus on supporting the Open Government Web site and national dialogue activities
- Intensive assistance to the GoM's Inter-Ministerial Working Group on the Millennium Challenge Account until order of non-involvement of U.S. financed projects was issued
- Briefing of the Millennium Challenge Corporation (MCC) team on 24 May
- Monthly issues of the EPRC Newsletter produced and distributed in English and Mongolian

#### **D. EPRC-sponsored public conferences, presentations, and training events**

Exhibit II-5 at the end of this section summarizes EPRC-sponsored public conferences, presentations, and training events held during the quarter. A total of 208 participants attended ten events sponsored by the project with a total duration of 133 hours for an equivalent of 3,458 person/days (208 participants x 133 hours divided over 8 hours per day). Training for energy sector companies and regulators on IAS-compliant standard charts of accounts and accounting principles accounted for most of the training delivered.

#### **E. Emerging issues and key actions for the next quarter**

Based on project implementation during the quarter, a number of issues worthy of attention have emerged. A summary of these is provided below, as well as key actions scheduled for the next quarter.

##### **E1. Emerging issues**

*Assistance to the new government with the definition of an economic policy reform agenda.* It is expected that the new government will be in place by the next quarter. This will present the project with the opportunity to promote a program of economic policy reforms that focus on:

- Improving the business environment through facilitating private sector economic growth
- Increasing the competitiveness of the Mongolian economy to provide further growth and employment
- Improving citizens' involvement in the process of law-making and the policy-making process
- Improving the business climate for foreign investment, with a particular focus on the energy sector.

The proposed agenda should target specific reforms for the first 100 days, first year, and subsequent years.

## E2. Key actions for the next quarter

Major activities or key actions projected for the next quarter, by project component, are detailed below.

### *Economic, trade, and financial policy support:*

- Initial technical review and assessment of tax policies and their relevant laws and regulations
- Preparation of economic policy reform agenda for consideration by the new government, with proposed measures for the first 100 days, first year, and subsequent years
- Release of user-friendly CD and Web-accessible database with search capabilities on Generalized System of Preferences (GSP) granted in the U.S.A., Japan, and the European Union for potential Mongolian products
- Elaboration and wide electronic distribution of succinct, one-page, EPRC policy briefs, in English and Mongolian, on issues examined by the project
- Proposed policy measures to mitigate impact of end of Multi Fibre Agreement and Agreement on Textiles and Clothing
- Assistance with TIFA in time for first meeting of Joint Council set up under TIFA Agreement
- Implementation of scheduled AWP-04 tasks.

### *Energy sector reform support:*

- Continue support for implementation of a cost-based tariff methodology for energy sector companies based on uniform, IAS-based charts of accounts and first release of CD containing the Accounting Training Manual and charts of accounts for energy companies
- Continue development of a revised energy law to improve ERA independence, regulatory process transparency and decrease investor country risk
- Development of legal framework for concessions law and continue review of other laws and regulations to improve their investor friendliness
- Implementation of scheduled AWP-04 tasks.

### *Business development services:*

- Development of promotional materials for services offered through the *Competitiveness Fund* and the *Business Development Fund*
- Holding workshops for potential clients of the funds
- Conduct of a feasibility analysis for a local equity fund
- Status assessment, strategy, and action plan for the meat sector
- Implementation of scheduled AWP-04 tasks.

### *Cross-cutting issues: National dialogue and project management:*

- Preparation of proposal, with National Legal Center (NLC), to review process of law submission with the objective of improving citizens' involvement, transparency and usefulness of the *Open Government* Web site
- Release of the first CD with an initial set of 20 essential business laws, updated in Mongolian and in English, and posted on the NLC site with linkages to the *Open Government* Web site
- Transfer of surplus equipment under contractor's custody, provided consent is obtained from new cognizant GoM official
- Design of the project Web site
- Implementation of scheduled AWP-04 tasks.





**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Apr-Jun-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A1. Development, maintenance, and implementation of sound macroeconomic policies to promote sustainable and equitable economic growth</b> <b>A1.1 Comparative assessment and benchmarking of corporate and VAT tax policies and administration, formulation of options and action plan</b>		>>>>	>> X		Reform proposal focused on reducing distortion effects of tax provisions on business submitted to GoM for inclusion in a 100-day reform program. Commitment secured for a medium-term (2-3 year) program to rationalize tax laws and provisions.
<b>A1.2 Comparative assessment and benchmarking of income taxation, social contributions, pension policies and administration, formulation of options and action plan</b>  <b>A1.2.1 Labor market and payroll fiscal charges: comparative analysis and proposal for reform</b> <b>A1.3 Comparative assessment and benchmarking of central budget expenditures, formulation of options and action plan</b>			>> >> >X >> >>	X >> X	Preparation of action plan and agreement on actions and schedules reached with MoFE, Tax Authority, and other relevant GoM officials to restructure individual income taxes, pension policies and social contributions.  Technical background paper for work on above task.  Concurrent analysis with above.
<b>A1.4 Foreign debt service assessment, projections and policy options</b>					
<b>A1.5 Real exchange rate management</b>					
<b>A2. Development, maintenance, and implementation of trade and investment policies supportive of a competitive participation of Mongolia in the world economy</b>					

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Apr-Jun-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A2.1 Assessment of tariff and non-tariff barriers to trade in Russia and China.</b>					
<b>A2.2 Utilization of Generalized System of Preferences (GSP) for Mongolian products</b>	>> >>	>> >> >>			Completed data compilation of Generalized System of Preferences (GSP) granted in the U.S.A., Japan, and the European Union as target export markets for potential Mongolian products. Release of user-friendly CD and Web-accessible database with search capabilities expected for the next quarter.
<b>A2.3 ATC and MFA impact analysis, scenarios, and policy and industry options</b>		>> >> X			Draft technical paper prepared on Impact scenarios of the Agreement on Textiles and Clothing (ATC) and Multi Fiber Agreement (MFA) on Mongolian textiles quota-free access to U.S. markets and formulation of policy and industry options.
<b>A2.4 Assessment of advantages and disadvantages of potential FTAs with Russia and China</b>					Formulation of trade policy options re potential FTAs with neighboring countries.
<b>A2.5 Trade policy and trade negotiations</b>					
<b>A2.5.1 Reduction of tariff and non-tariff barriers for Mongolian products with a BD-identified niche demand in specific target markets</b>	>>	X >> >>			Advice submitted to MOIT on tariff reduction application to be made to European Commission. MOIT made application on 25th March 2004. Negotiations have commenced.
<b>A2.5.2 Trade management capacity</b>	>> >> >>	X >> >>	>> >> >>	>> >> >>	Assistance to MoIT provided on an as needed basis.
<b>A2.5.3 Feasibility analysis of Free Economic Zones (FEZ) in Mongolia</b>	>> >X				Completed assessment of Mongolia's Free Trade Zones Program and site evaluations of proposed Zamyn-Uud and Altanbulag FTZ sites.
Policy Brief on Free Trade Zones		>X			One page Policy Brief on Free Trade Zones prepared and delivered.
<b>A2.5.4 Assistance on FTAs (U.S. and other) and RTAs</b>		>> >X >>	>> >> >>	>> >> >>	TIFA comments submitted to US Embassy. On going preparation of petitions to USTR to expand product coverage under the US GSP 2004 with MoIT submitted in May 2004.

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Apr-Jun-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A3. Reduction of transaction costs for businesses</b>					
<b>A3.1 Review of nominal and real interest rates, Bank of Mongolia policies, banking spreads, and formulation of policy options</b>					
<b>A3.2 Transit of goods through Russia and China</b>				>> >X	Field investigation of Russian and Chinese practices applied to the transit of selected Mongolian products and elaboration of GATT-supported procedures for negotiation at bilateral meetings.
<b>A4. Deepening and strengthening of the financial sector</b>					
<b>A4.1 Insurance sector regulatory environment</b>					On hold until GoM makes decisions on how to proceed in this sector.
<b>A5. Response to emerging policy initiatives</b>					
<b>A5.1 Countries' best practices, development of economic &amp; financial models to inform the negotiation of stability agreements in the mining sector</b>		>> >X			As negotiated and agreed upon and consistent with project policy support focus on laws, regulations, systems, and procedures directly affecting the business environment.
Policy Brief on Negotiation of stability agreements in mining		>X			Assessment of Mongolia's mining sector competitiveness and framework for use of stability agreements completed at the request of MoFE.
<b>A5.2 Review and updating of Jan-03 draft <i>Economic Development Strategy for Mongolia through 2015</i></b>	>> >> >X	>>X			One page policy brief prepared and delivered.
<b>A5.2.1 Economic Development Strategy Technical Paper: Mongolia's foreign trade</b>		>> >X			At the request of the Prime Minister's Office, project prepared a prioritized development strategy tentatively entitled <i>Mongolia: Vision 2020</i> . A third draft was submitted during the quarter.
<b>A5.3 Shadow economy survey</b>		>> >> >>	>>		Technical paper completed in draft form.
<b>A5.4 Economic policy reform agenda proposal for the new government</b>				>X >> >> >X	Meetings held with Mongolian Open Society Forum and National Statistical Office to review data collection instrument and results of field pre-testing of questionnaire. Decision to be made next quarter regarding continued EPRC involvement.
					Assistance to the GoM on defining economic policy reform agenda focused on private sector based economic growth and increased country competitiveness. Proposed economic policy reform agenda specified for the first 100 days, first year, and subsequent years.

**Exhibit II-1: Economic, trade, and financial policy support work plan implementation (Apr-Jun-04)**

*A. ECONOMIC, TRADE, AND FINANCIAL POLICY SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>A5.5 Assessment of Mongolia's legal framework for concessions and draft Concessions Law</b>		>>	>> X >>	X >> X	Initial assessment performed at the request of the Ministry of Justice.
<b>A5.6 Mongolia's country risk and country risk premium</b>		>> >>	X >> >>	X >> X	Completed technical analysis of Mongolia's country risk and country risk premium estimation. Translation into Mongolian and distribution of the paper expected next quarter, with workshops jointly sponsored with the risk management unit of Mongol Bank expected to follow.

File: QPR Apr-Jun-04.xls

Updated: 10-Jul-04



**Exhibit II-2: Energy work plan implementation (Apr-Jun-04)**

*B. ENERGY SECTOR REFORM SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B1. Development and implementation of regulatory environment</b>					
<b>B1.1 Regulations and implementation of cost-based standards for sector companies</b>					Prepared IAS-based Charts of Accounts for energy sector companies.
<b>B1.1.1 Cost-based tariff calculation by sector companies</b>	>> >> >>	>> >> >>	>> >> >>	>> >> >>	Conducted 11 workshops for sector companies on use of Charts of Accounts. Prepared draft manual.
<b>B1.1.2 Assist ERA with implementation of an IAS-based Regulatory Accounting System</b>		>> >> >> >>	>> >> >>	>> >> >>	Prepared implementation plan for new accounting system to be executed starting on the third quarter of 2004 and continuing through fourth quarter of 2005.
<b>B1.2 Strengthening of ERA supervisory capacity</b>					
<b>B1.2.1 Development and support for ERA system for supervision of and implementation of a reporting system by sector companies.</b>		>> >>	>> >> >>	>> >> >>	Assessed ERA tariff review and audit capabilities.
<b>B1.2.2 Development and support for ERA's public information strategy</b>				>> >> >>	Review of predecessor project public information materials, prepared draft TOR
<b>B1.2.3 Develop Public Hearing Process to hear sector company and Consumer complaints</b>				>> >> >>	Same as above.
<b>B1.2.4 Assist ERA with review of temporary sector company operating licenses and develop long term licenses</b>			>> >>	>>	Review of several draft long-term licenses.
<b>B2. Development and Implementation of commercial orientation and practices in private sector companies</b>					
<b>B2.1 Billing and collection systems for distribution companies</b>					
<b>B3. Attractive environment for private investment in the sector</b>	>> >>	XX >> >>	>> >> >>	>> >> >>	Two presentations/workshops on the subject of Privatization: the Investor's Point of View. Continue country due diligence.

**Exhibit II-2: Energy work plan implementation (Apr-Jun-04)**

*B. ENERGY SECTOR REFORM SUPPORT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>B4. Response to emerging policy initiatives</b>					
<b>B4.1 Assistance to GoM in drafting energy sector legislation and amendments</b>		>> >X			Review of proposed Energy Law amendments as part of a MOI/ERA/Legislative working group. Proposed substantial amendments aimed at regulatory independence and making the law more investor friendly. Since working group did not accept majority of our proposals, we recommended that amendments not be adopted. Proposed amendments to the law were tabled.
<b>B4.2 On-demand assistance to ERA</b>		>> >X			Worked with ERA on proposal to raise heat and electric tariffs. Assisted ERA with building renovation contract review.

**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

**C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT**

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C.1 Improved competitiveness of sectors/clusters</b>					
<b>C 1. 1 Natural fibers (cashmere)</b>					
<b>C1.1.1 Status assessment, strategy, and action plan</b> Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms	>> >> >>				Completed. PowerPoint presentation on cashmere status and proposed strategy completed.
Concise sector/cluster status report and proposed strategy elaborated	>>	X			
<b>C1.1.2 Support to sector/cluster associations</b> <b>Assistance to the Fibermark society</b> Point of sale (POS) marketing materials for Mongolian cashmere developed and distributed Market Intelligence Unit established to disseminate information about target export market niches for cashmere Proposal prepared for membership of IWTO Application prepared for the protection of geographical indication of Mongolian cashmere Cashmere Forum for cluster members conducted Proposal prepared for the accreditation of Textile Institute Laboratory Facilitate the preparation of a Spring Fashion Show 2005		>> >X     X X	>> >X>>>  >> >> >> >X >>  X X		Banners, brochures and bookmarks produced and distributed to cashmere outlets.     Cashmere forum planned to take place first week in July '04
<b>C1.1.3 Improved marketing and distribution channels in target export niche markets</b> <b>Berlin Distribution Center for Mongolian cashmere:</b> Identification and negotiation with partners, business plan developed, company formed and distribution center opened.	>	>	>	> > > X	Business plan has been formulated and agreed upon, partners are negotiating on the establishment of a limited liability company. Plans are still on target to open Berlin Distribution Center in November 2004.

**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C1.1.4 Improved country competitive environment for the sector</b> Mongolian baseline cashmere competitive value chain analysis completed: volumes, values, capacities, technologies, linkages, major players, profitability, taxation, regulatory, and policy issues at each stage  Promulgation of findings and working cluster consensus on taxation, regulatory, and policy priority proposals for GoM consideration  Implementation follow-up of taxation, regulatory and policy proposals; briefings to Executive and Parliament members and lobbying			> >>	>X  >X >X >>	
<b>C1.1.5 Improved business practices and technical knowledge of cluster/sector counterparts</b> <b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC  <b>Internship 1:</b> <b>Internship 2:</b>  <b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills Mongol Amicale, Customer Service training completed	X			> > > > > >  X> X>	Piloted through Mongol Amicale
<b>C1.1.6. Response to emerging opportunities for firm level transactions</b>  Mongol Amicale, broking transactions with a Swiss distributor  Ermel, design of a new collection, website, visitor center (potential for BDF)  Altai cashmere, product development		>> >>  >> >X  >> >>			Negotiations failed due to inability of Mongolian processors to meet technical specifications  Proposals prepared for BDF application

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*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

QPR Apr-Jun-04 - Exhibit II-3: BDS work plan implementation

**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b> <b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC <b>Internship 1:</b> <b>Internship 2:</b>  <b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills				> > >  X X	
<b>C1.2.6. Response to emerging opportunities for firm level transactions</b>  Development of Safari Park concept for Ulaanbaatar (potential for BDF)		>>>>	>> X		STTA planned for next quarter
<b>C1.3 Meat</b>  <b>C1.3.1. Status assessment, strategy, and action plan</b> Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms  Concise sector/cluster status report and proposed strategy elaborated		>> >>	>> >>  >> >X		
<b>C1.3.2 Support to sector/cluster associations</b> <b>Assistance to the Meat Producers Association</b>  Market Intelligence Unit established Analysis of barriers to export of meat and meat products to emerging markets and presented to the industry STTA to improve sanitary conditions in selected meat processing plants engaged				X  X  X	
<b>C1.3.3 Improved marketing and distribution channels in target export niche markets</b>  Provide market information to meat processors in support of potential exports to Egypt and the Middle East			>> >X		
<b>C1.3.4 Improved country competitive environment for the sector</b>					

**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b> <b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC <b>Internship 1:</b> <b>Internship 2:</b>  <b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills					
<b>C1.3.6. Response to emerging opportunities for firm level transactions</b>					
<b>C1.4 Leather</b>  <b>C1.4.1 Status assessment, strategy, and action plan</b> Review of available assessments and reports; site visits to firms, associations, and clusters; identification of supply chains, export capacities, and constraints; identification of anchor firms  Concise sector/cluster status report and proposed strategy elaborated		>> >>	>> >>	>> >X	Completed
<b>C1.4.2 Support to sector/cluster associations</b> <b>Creation of and assistance to the Mongolian Leather Companies Association</b>  Association of Mongolian Leather Companies formed Cooperation agreements concluded <b>C1.4.3 Improved marketing and distribution channels in target export niche markets</b>	>>	>> >>	X	>> X	<i>Eco Aris</i> , a legal entity representing interests of Mongolian leather companies, was registered in June. Project assisted with identification and recruitment of prospective member companies, purpose and definition of association.

**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C1.4.4 Improved country competitive environment for the sector</b>					
<b>C1.2.5 Improved business practices and technical knowledge of cluster/sector counterparts</b> <b>Internships Program:</b> Products or deliverables-based projects jointly designed with counterpart agency and implemented with counterparts' personnel seconded temporarily to EPRC  <b>Internship 1:</b> <b>Internship 2:</b>  <b>Workshops, conferences and training:</b> To disseminate knowledge of best practices, improve technical and management skills					
<b>C1.4.6 Response to emerging opportunities for firm level transactions</b>					
<b>C2. Sector/cluster transaction support: The Mongolian Competitiveness Fund</b>  <b>C2.1. Assessment and fund design</b> Fund design requirements document completed based on local assessments; proposed objectives, operations, client eligibility, management and monitoring mechanisms agreed upon.	>>	X >>	X		"The Mongolian Competitiveness Fund" document submitted in May and agreed upon with Mission. Contracts Office in Manila has granted approval in principle. Final approval pending.
<b>C2.2. Fund marketing and promotion</b> Marketing brochures, media materials and roll-out plan prepared Marketing workshops, seminars and press conferences delivered			>>X W W		
<b>C2.3. Client recruitment and transaction structuring</b> Clients assisted in project formulation, subcontracts negotiated, and projects monitored			>> >>	>> >> >>	
<b>C2.4. Quarterly report on fund management results</b> Quarterly report on transaction pipeline and transaction results			>>	X	



**Exhibit II-3: Business development services work plan implementation (Apr-Jun 2004)**

*C. BUSINESS AND SECTOR / CLUSTER DEVELOPMENT*

AWP-2004 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>C3. Firm-level transaction support: The Mongolian Business Development Fund</b>					
<b>C3.1. Assessment and fund design</b>  Fund design requirements document completed based on local assessments; proposed objectives, operations, client eligibility, management and monitoring mechanisms agreed upon.		>> >> X			"The Mongolian Business Development Fund" document submitted in June and agreed upon with Mission. Contracts Office in Manila has granted approval in principle. Final approval pending.
<b>C3.2. Fund marketing and promotion</b> Marketing brochures, media materials and roll-out plan prepared Marketing workshops, seminars and press conferences delivered			>X >> W W		
<b>C3.3. Client recruitment and transaction structuring</b> Clients assisted in project formulation, subcontracts negotiated, and projects monitored			>> >> >> >>		
<b>C3.4. Quarterly report on fund management results</b> Quarterly report on transaction pipeline and transaction results			>> X		
<b>C4. Improved competitiveness of business environment</b>					
<b>C4.1 Inclusion of Mongolia in 2005 Microeconomic Index of Competitiveness</b>				>> >> X	
<b>C4.2 Feasibility analysis for local private equity fund</b>			>> >X		
<b>C4.3 Improved legal and regulatory environment for businesses</b>  <b>Updated, current business laws:</b> Releases of updated Mongolian versions and English translations of selected business relevant laws done in conjunction with the National Legal Center  <b>Country 'due diligence' analysis &amp; detailed change recommendations on laws, resolutions, and regulations:</b> Short-term corporate legal and investment advisory team works with Mongolian team on country 'due diligence' and produces list of changes Briefings, advocacy and implementation of business legal and regulatory reforms		>> >> >X >>	>> >> X		First set of five business related laws updated with all amendments in Mongolian and translated into English. Release of CD with first set of fully updated laws (10-15) expected in early September.

**Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Apr-Jun-04)**

*D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT*

AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS	
	Quarter 1	Quarter 2	Quarter 3	Quarter 4		
<b>D1. Improved public transparency, corporate governance and national dialogue</b>						
<b>D1.1 Mongolia Business Trust</b>					On hold until Business Development Fund generates pipeline of transactions, with creation dependent on types of transactions identified.	
<b>D1.2 Open Government Website</b>					Subcontract negotiations finalized with The Asia Foundation for <i>Open Government</i> Website and national dialogue support. Work started with National Legal Center on standard operating procedures for updating, maintaining current, and posting on the Web Mongolian versions of all laws; OG Website would provide links to the prospective NLC Website.	
<b>D1.2.1 Review of relevant laws and resolutions on law-making processes</b>		>> >>	>> >>	X	Completed translations of GoM Resolution 2000-No 178 on Cabinet Procedural Rules, Law on Drafting and Submitting Laws & Other Resolutions of the Ikh Hural of 8 November 2001; Resolution of Ikh Hural of 21 June 2001, No. 61 and its Amendment of 13 May 2004 establishing legal process of law making. Legally-mandated flow will be examined against current practice to generate proposal for reviewing flow to strengthen public participation and transparency in the process.	
<b>D1.2.2 Proposal to Cabinet and Ikh Hural for improved public participation in law-making process and role of Open Government Website</b>		>>	>> >> >>	X	Activity started with compilation of relevant laws and resolutions of Cabinet and Ikh Hural on law-making process	
<b>D1.2.3 Operations and maintenance of the Open Government Website</b>	>> >> >>	>> >> >>	>> >>	X	>> >> >>	Proposal to restructure the Open Government Web site scheduled for completion next quarter.
<b>D1.3 Proposed EPRC Project Web site (in lieu of The Mongolian Business Trust Quarterly)</b>			>> >	X		Dissemination of technical reports will be better accomplished through a project Web site in lieu of the initially proposed Mongolian Business Trust Quarterly. Design of the project Web site can start and be completed next quarter.
<b>D1.4 Speakers Program</b>	X X	X				Public presentation given by EPRC Senior Energy Advisor, Mr Horst Meinecke, and held at the USAID Resource Center on 8 April on Privatization: The investor's Point of View.

**Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Apr-Jun-04)**

*D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT*

AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
<b>D1.5 Assistance to the GoM with the <i>Millennium Challenge Account</i></b>		>> >>			At the request of the Prime Minister's Office, project provided support on MCA indicators, eligibility requirements, and likely project selection criteria to the MCA Inter-Ministerial Working Group created by Cabinet resolution. Project involvement in MCA activities was stopped, following instructions for non-involvement by U.S. Government funded projects.
<b>D2. Coordination and cooperation with partners, foreign investors, bilateral, and multilateral organizations</b>					
<b>D2.1 Energy Donor Round Tables</b>	X	X	X	X	Second Energy Donor Round Table organized by EPRC held at JICA on 25 June.
<b>D2.2. USAID Business Development Projects Meetings</b>		X X	X X X	X X X	Monthly meeting held on 28 June.
<b>D2.3 Millennium Challenge Corporation</b>	>> >>	>>			Intensive assistance provided to MCA Inter-Ministerial Working Group until USAID/W issued guidance of non-involvement
<b>D3. Monthly EPRC Review</b>	X X X	X X X	X X X	X X X	Three issues of the EPRC Monthly Newsletter produced and distributed in English and Mongolian during the quarter, for a running total of six for the current AWP.
<b>D4. Internship program</b>					
<b>D4.1 On-line access to current business laws and English translations - National Legal Center</b>		>> >>	>> >X>>	>> >> X	Activity started during the quarter, with expected MOU and internship program to begin next quarter.
<b>D5. Contract management</b>					
<b>D5.1 Quarterly Progress Reports</b>	X	X	X	X	Submitted Quarterly Progress Report for the January - March 2004 quarter.
<b>D5.2 Annual Work Plans and budgets</b>		>> >X			Updated LOP budget prepared and submitted. Contract amendment negotiations concluded to redesign the matching grants program into two pass-through funds, the Mongolian Competitiveness Fund to support cluster development and the Business Development Fund to assist businesses.

Exhibit II-4: Cross-cutting issues: National dialogue and project management work plan implementation (Apr-Jun-04)

D. CROSS-CUTTING ISSUES; NATIONAL DIALOGUE AND PROJECT MANAGEMENT					
AWP-2002 ACTIVITIES	DELIVERABLES & BENCHMARKS				END OF QUARTER STATUS
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
D.5.3 Training database					
D.5.4 Other reports on demand		X X X	X X X	X X X	Monthly project status reports produced.

File: QPR Apr-Jun-04 5-Jul-04.xls  
Updated: 6-Jul-04

**Exhibit II-5: EPRC-sponsored public conferences, presentations, and events held during the quarter (April-June 2004)**

No.	Even codet	Date	Event	Target participants	No.of Atten.	Type of event	Location (city)	Duration (Hours)
1	BDS	07-Apr	International Trade Mart by German Media	Tourism sector delegates	17	Press Conference	Ulaanbaatar	3
2	ENER	08-Apr	Privatization: The Investor's Point	Government and Donors	8	Presentation	Ulaanbaatar	4
3	ENER	14-Apr	Privatization: The Investor's Point	Government and NGOs	6	Presentation	Ulaanbaatar	4
4	ENER	16-Apr	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	13	Training	Ulaanbaatar	8
5	ENER	19-Apr	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	25	Training	Ulaanbaatar	8
6	ENER	20-Apr	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	20	Training	Ulaanbaatar	8
7	ENER	21-Apr	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	23	Training	Ulaanbaatar	8
8	ENER	22-Apr	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	19	Training	Ulaanbaatar	8
9	ENER	3-7-May	EPRC Training on Energy Chart of Accounts	Energy Regulatory Authority and Central Energy System Generation Companies	36	Training	Ulaanbaatar	40
11	ENER	10-13 May	EPRC Training on Energy Chart of Accounts	Western energy system distribution and transmission companies	16	Training	Ulaangom City, Uvs province	24
10	ENER	18-20 May	EPRC Training on Energy Chart of Accounts	Eastern energy system distribution and transmission generation companies	25	Training	Choibalsan City, Dornod province	18

Event codes: BDS = Business Development C  
ENER = Energy Support

**Totals 208**

**133**

**Total person/days: 3,458**



## **SECTION III: PROJECT MANAGEMENT AND ADMINISTRATION**

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### **A. Introduction**

This section summarizes significant project management and administration activities, problems encountered and actions taken to solve them, and main activities scheduled for completion during the next quarter. Annex B contains a list of long-term local project staff and short-term expatriate technical assignments. Annex C has a budget status report as of the end of the same period.

### **B. Significant project management and administration activities**

Project management efforts during the quarter focused on:

- Working closely with the Mission on restructuring the life-of-project budget to capture expenditures in the energy sector support component of the project under CLIN 004 in lieu of the costs of the internship program previously subsumed under this CLIN
- Developing the design and operating procedures for two funds, the Competitiveness Fund for sector/cluster general support and the Business Development Fund for the provision of firm-level support
- Discussions with the Mission on finalization of the life-of-project budget and preparation of a draft contract amendment to include the changes detailed above
- Filling out remaining open local long-term positions and recruiting replacements for positions vacated
- Installation of the computer server to implement the project Intranet and host the domain registered for the project, eprc-chemonics.biz
- Negotiation with SOS Medica Mongolia to provide prepaid medical services to expatriate personnel.

By the end of the quarter the Mission and project management completed all documentation, finalized the revised budget, and submitted these to Manila for Contracting Officer's approval.

### **C. Personnel**

All key contract personnel were settled and work plan implementation proceeded smoothly. Remaining open local long-term positions were filled and replacements recruited for personnel positions who resigned or whose employment contracts were ended.

#### **C1. Long-term local personnel**

By the end of the quarter the project had ten local long-term professionals and eight support staff. Positions openings for the Financial and Business Analyst, Translator/Interpreter, and Accounting Specialist for the energy sector were filled; replacements for positions of Project Accountant and Economic Analyst were identified and hired. Exhibit B-1 in Annex B provides a summary status of local staff as of the end of the reporting period.

## C2. Deployment of short-term expatriate technical assistance

Short-term expatriate assignments were largely put on hold due to elections. One short-term expatriate technical assignment carried out by Mr Larry Jensen to assist with the development of IAS-compliant charts of accounts and training for energy sector generating and distribution companies was completed during the quarter. Mr Jensen departed on 7 May as shown in Exhibit B-2 in Annex B which provides details about the purpose of the assignment, dates of arrival and departure.

## D. Status of subcontracts

Negotiations with The Asia Foundation were finalized during the quarter and redefined their scope of work to focus on the public dialogue activity and support of the Open Government Website. Formalization of the TAF subcontract is expected to take place next quarter after the proposed contract amendment is approved.

## E. USAID Resource Center utilization

Exhibit III-1 summarizes use of the USAID Resource Center by external organizations during the quarter. Use was equivalent to 378 person/days.

**Exhibit III-1: External events held at the USAID Resource Center during the quarter (April-June)**

No.	Event code	Date	Event	Target participants	No.of Atten.	Type of event	Duration (Hours)
1	WV	5-6-April	Training of Assessing and Improving Food Nutrition	Heads of District Offices of World Vision	20	Workshop	16
2	DEC	12-May	Role of international organizations in development of NGOs	NGO's	19	Workshop	2
3	MVA	13-May	Advantageous of working closely with households protecting project	NGO's	36	Workshop	8
4	TBP	8-9-June	XEROX Company introduction	Press, Media	14	Press Conference	8

<b>Totals</b>	<b>89</b>	<b>34</b>
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Organization

codes: TBP=Tavan Bogd Plaza

MVA=Mongolian Volunteer's Association

DEC=Democratic Education Center

HRDC=Human Rights Development Center

MT=Master Travel

WV=World Vision

<b>Total person/days:</b>	<b>378</b>
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## **F. Budget status report**

Annex C shows presents the project budget status showing all amounts invoiced during the quarter, cumulative totals, and funds remaining by budget CLIN. The numbers are rounded to the nearest dollar.

## **G. Problems encountered and remedial actions**

There were no significant problems materially affecting contract performance during the quarter. Preparation for and scheduled government elections created an expected gap in government counterparts with authority for policy dialogue and decision making. As a consequence, delivery of short term technical assistance in the policy area was largely put on hold until new government counterparts assume office. Nevertheless, project management and the Mission worked intensively on addressing internal standing issues in contract management and life-of-project budget and these activities were successfully completed by the end of the quarter.

## **H. Project and contract management actions expected for the next quarter**

Project and contract management actions expected to be completed during the next quarter include the following:

1. Negotiation and contracting of host services for a project Web site
2. Initial design and testing of a project Web site to disseminate technical documents and information about the project
3. Design and negotiation of the internship program
4. Negotiation and signing of a Memorandum of Understanding with the National Legal Center to update essential business laws in English and Mongolian and make these publicly accessible through their Web site, with linkages from the Open Government Web site.
5. Transfer of surplus equipment under contractor's custody, with consent from the GoM and USAID—a task currently on hold until the Prime Minister's office appoints an officer in charge of liaison with the project.



## **ANNEXES**

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## **ANNEX A: SUMMARY PROJECT DESCRIPTION**

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## Economic Policy Reform and Competitiveness Project

### Activity duration:

17 September 2003 to  
16 September 2008

### USAID Contract No.:

438-C-00-03-00021-00



### Implemented by:



Chemonics International Inc.

### In association with:

The Services Group Inc.  
Dexis Consulting Group  
The Asia Foundation  
Crimson Capital  
Making Cents

### Key personnel:

Fernando Bertoli, *Chief of Party*  
Christopher Broxholme, *Deputy Chief of Party*  
Janusz Szyrmer, *Senior Policy Advisor*  
Bruce Harris, *Senior Competitiveness Advisor*  
Horst Meinecke, *Senior Energy Advisor*

### Purpose of the activity

Accelerate and broaden sustainable, private-sector-led economic growth through an improved enabling environment for private sector growth and more competitive industries and sectors.

### Project goals

1. Accelerate and deepen the policy reform process in Mongolia
2. Promote increased competitiveness in the Mongolian economy.

### Project vision

Support a competitive participation of Mongolia in the world economy.

### Project strategy

- Continuation of the development, maintenance, and implementation of sound, market-oriented macroeconomic, trade and investment, sectoral, and microeconomic policies that promote sustainable and equitable economic growth
- An enabling business environment and regulatory framework that fosters competition and attracts foreign investment and best business practices
- The development of private sector businesses and clusters focused on supplying the demand of target export and domestic market niches capable of turning and maintaining comparative advantages into competitive edges
- Continued national dialogue on building a national consensus to "put Mongolia on the world map" supported by government transparency and good governance business practices

### Project tasks

- **Policy analysis, formulation and implementation support:** This task category includes: (a) policy assessment and analysis; (b) formulation of policy options for improving the competitiveness of the Mongolian economy; (c) assistance in consensus building; and (d) technical and managerial implementation support.
- **Consensus building, public education and national dialogue:** EPRC supports an improved environment for government transparency and corporate governance by working with national decision-makers, the business community, local government and community leaders, academic institutions, and representatives of civil society using a consensus building strategy linked to policy reform and private sector led economic growth.
- **Cluster development and support:** EPRC works with individual firms and inter-related groups (clusters) in key industrial sectors to develop competitive, export-driven businesses. Priority sectors include cashmere, tourism, hides, skins, leather, meat, and textiles.
- **Energy sector support:** EPRC supports Mongolia's efforts to develop and implement a transparent, market-oriented regulatory environment to promote a competitive and efficient delivery of energy services to consumers; commercial practices in energy generation and distribution; and an environment attractive to foreign and domestic private investment.
- **Internship Program:** To improve the quality of economic, trade, and business decision-making, EPRC runs a small internship program where participants acquire first-hand experience in best practices by working side by side with experts on specific projects focused on improving the competitiveness of the Mongolian economy.





**ANNEX B: LONG-TERM LOCAL PERSONNEL AND EXPATRIATE  
SHORT-TERM ASSIGNMENTS**

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**Exhibit B-1: Local long-term project staff as of the end of Apr-Jun-04 quarter**

Employee name	Position	Start date	End date
<i>Professional Staff</i>			
Altansukh Tumenjargal	IT specialist	10-Nov-03	
Amgalan Nordov	Energy specialist	10-Nov-03	
Jigjidmaa Dugeree	Business development advisor	8-Dec-03	
Indraa Bold	Business development advisor	5-Jan-04	
Munkhtulga Khurelbaatar	Translator/Interpreter	18-Mar-04	
Odonmijid Ganbold	Accountant	27-Apr-04	
Ashidmaa Dashnyam	Financial and Business Specialist	10-May-04	
Doljinsuren Jambal	Economic Analyst	17-May-04	
Bolor Purevdorj	Translator/Interpreter	19-May-04	
Munkhsaikhan Dambiinyam	Accounting Specialist	26-May-04	
<i>Support Staff</i>			
Uurtsaikh Sanghi	Operations manager	10-Nov-03	
Khaliun Yura	Receptionist	26-Nov-03	
Oyuntsetseg Minjin	IT assistant/Information officer	12-Dec-03	
Bulgan Narankhuu	Administrative assistant	23-Jan-04	
Odgerel Myagmar	Business development assistant	26-Jan-04	
Batmunkh Batsuren	Driver/Messenger	1-Feb-04	
Erdenebat Dangaasuren	Driver/Messenger	6-Feb-04	
Mandalmaa Dashdorj	Administrative assistant	22-Mar-04	

**Exhibit B-2: Short-term expatriate technical assignments during the Apr-Jun-04 quarter**

Name	Purpose of assignment	Date of arrival	Date of departure
Larry Jensen	Assist with development of and training on IAS-compliant charts of accounts for energy sector generating and distribution companies	March 12	May 7